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UNIVERSITY OF DURHAM

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والدراسات الإسلامية

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AND ISLAMIC STUDIES

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An Evaluation of Social Policy

by

P.R. Kaim-Caudle



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Introduction

The purpose of this paper is to examine the extent to which the Maltese Socialist Government has achieved the social objectives in respect of income redistribution which it set itself on taking office in 1971¹. No attempt will be made to compare pre- and post-1971 social policies² or to examine the foreign, defence or constitutional policies pursued. There are many books³ which record the history of Malta prior to Independence and innumerable reports studying the Islands' economic conditions and prospects but it is relevant here to recapitulate briefly the involvement of the Labour Party in some of the social and political developments of the 1950's.

Political background

Malta had eight General Elections between 1945 and 1970. Three of these, in 1945, 1947 and 1955, were won by the Labour Party with comfortable majorities⁴. In the first election after the War, the Labour Party gained almost three-quarters of the votes cast and nine of the ten elected seats in the Council of Government. This government introduced universal suffrage which, for the first time, gave the vote to women. In the election of 1947, following the restoration of self-government, the Labour Party gained three-fifths of the votes cast and 24 of the 40 seats in the Legislative Assembly. This led to the formation of the first Labour Government with Dr. Boffa as Prime Minister. His government enacted the Old Age Pension Act, 1948, which provided for non-contributory pensions subject to a means test and to qualifications relating to age, residence and nationality. This was Malta's first social security legislation, with the possible exception of the Workmen's Compensation Act, 1929. The Maltese Old Age Pension Act 1948 was in many respects similar to the British Old Age Pension Act of 1908.

The first Labour government broke up in disarray after about two years owing to major policy disagreements between the Prime Minister and Dom Mintoff, the Deputy Prime Minister. This led to a split of the Labour Party into a majority faction, the Malta Labour Party with Mintoff as its leader, and a minority faction, which took the name of its leader, calling itself Dr. Boffa's Party.

In the 1950 election, following Boffa's resignation, the two factions of what had been the Labour Party gained eleven seats each in the 40-seat Legislative Assembly. The discord between the two factions, however, was so great that Boffa enabled the leader of the Nationalist Party to form a minority government. Two more elections followed fairly rapidly in 1951 and 1953. The

results were similar to those of 1950 in as far as the number of seats and votes gained by the Malta Labour Party and Dr. Boffa's Party were greater than those of all other parties combined. They were dissimilar in that, after the 1951 and 1953 elections, Dr. Boffa's Party formed a coalition with the Nationalist Party. It is also of interest to note that in each of these three successive elections the seats and votes gained by the Malta Labour Party increased while those of Dr. Boffa's Party declined.

Finally, in 1955, in the fourth election in less than five years, the Malta Labour Party gained a decisive majority of seats and votes cast. Dr. Boffa's Party had disintegrated and Dom Mintoff became Prime Minister of the second Labour Government. This government enacted two major pieces of social legislation, both following fairly closely similar legislation in Britain. The National Insurance Act, 1956 established a scheme of social insurance providing flat rate cash benefits in the event of marriage, sickness, industrial injury or disease, unemployment, widowhood, orphanhood and old age. In major particulars the Act was similar to the British National Insurance Act 1946, except that it covered only employees and that short-term benefits were lower for women than for men. The National Assistance Act 1956 provided, subject to means test, for social and medical assistance in cash as well as medical assistance in kind, in the form of free hospital care and free supply of medicines and prosthetic aids.

The Malta Labour Party had tentatively advocated some measure of integration with the United Kingdom in all the three elections of the early 1950's. In this context, integration meant representation at Westminster, devolution at Valletta and parity of standards with Britain. At the 1955 election, integration was a major plank in the Labour Party's election platform. Soon after taking office in February, Mintoff proposed to the British government the integration of Malta with Britain. His proposal envisaged, among other things, assistance by the United Kingdom to enable the people of Malta to obtain, at some unspecified time, parity in standards of living and in social service provisions. Another important proposal was to have no fewer than three Members of Parliament representing Malta in the British House of Commons.

A Round Table Conference of senior members of both Houses of Parliament convened by the British Government reported in December 1955 in favour of the integration proposal. The decision on whether to proceed with integration was to be determined by a referendum of the Maltese people. This positive response was a considerable success for the Labour Government. However it was

to come to nought⁵. The Catholic Church as well as the Nationalist Party strenuously opposed integration. Mintoff failed to persuade the Catholic Hierarchy that the position and rights of the Church would not be endangered by integration. He was also unwilling to postpone the referendum until guarantees satisfactory to the Church had been agreed.

The referendum was held in February 1956, within less than a year of the Labour Government taking office. The result was ambiguous: 74 per cent of the votes cast were in favour but they represented only 44 per cent of those entitled to vote. Only 59 per cent of the electorate had voted in the referendum compared with 81 per cent in the previous general election. A considerable proportion of the electorate had followed the advice of the Church and had abstained. On the not unreasonable assumption that a 19 per cent abstention rate was normal, it follows that about 55 per cent of the effective electorate supported integration. Whether this was sufficient for such a major constitutional change is a matter of judgement. Mintoff thought it was, the Church and the Nationalist Party thought otherwise and so, after some procrastination, did the British Government.

The story of the interwoven economic, religious and political issues and of the manoeuvring which led to the failure of integration is not relevant to the purpose of this paper. Here only two points need to be emphasised. There was at one time in the mid-1950's a very good chance that the Maltese people might attain, in the 1960's or 1970's, parity in social service provisions with the people of Britain. Even if integration had been implemented, there was of course no certainty that this would have happened. Second, the protracted negotiations between Malta and Britain following the referendum soured their relations and turned the Malta Labour Party from anglophile to anglophobe.

Mintoff resigned in 1958 and the constitution was suspended until elections under a new constitution were held in 1962. Both the 1962 and 1966 elections were won by the Nationalist Party. After having been out of office for thirteen years, Labour won, by a very small margin, the General Election of 1971 and Mintoff became Prime Minister for the second time. Five years later, at the 1976 election, Labour again won a majority of the seats and has now been in office for ten years.

To sum up : the 50.8 and 51.5 per cent of the votes gained by the Labour Party in 1971 and 1976 respectively were decidedly lower than those gained in 1945, 1947 and 1955; they were also lower than the combined votes cast for the Labour Party and Dr.

Boffa's Party in the three elections in the early 1950's and were only marginally higher than the 49.1 per cent of the votes cast for the Labour Party and the Christian Workers Party⁶ in 1966. There was thus no marked swing to Labour in 1971 and no overwhelming endorsement of Labour Party policies in 1976.

Economic background

The Labour Party's political, social and economic objectives are stated clearly and unambiguously in its Manifestoes for the 1971 and 1976 elections and in the government's Development Plan for Malta 1973-80. The main economic objective was the achievement of full economic viability when the British military base on the Island closed down in March 1979. How far has this objective been achieved? It is possible to make a prima facie assessment by reference to some four or five economic indicators.

The Index of Retail Prices increased between 1970 and June 1979 by 64 per cent. This is only marginally more than the indices for the German Federal Republic and for Switzerland but less than those for any of the other sixteen non-Communist European Countries⁷. During this period, prices increased by about 200 per cent in Ireland, the United Kingdom and Italy. Prior to 1971, the Maltese pound (£M) was at par with the pound sterling. Within weeks of taking office, the Labour government initiated an independent approach in the management of Malta's foreign exchange rate and international reserves. The link with sterling was broken and, since 1972, the Maltese pound has been linked to a trade-weighted basket of currencies. In September 1979 the Maltese pound exchanged for £1.31 sterling⁸. The management of the exchange rate and the diversification of currency reserves reduced the impact of world inflation and resulted in considerable gains to the Central Bank.

The Maltese government Revenue and Expenditure accounts are not easy to unravel. However, for the year ending March 1979 and for the nine months ending December 1979, the ordinary revenue from taxes and charges for services covered current expenditure. The rent received from Britain for defence facilities and the substantial property profits made during this period were not applied to the finance of this expenditure but to capital investment⁹. The Balance of Payment on Current Account has shown a credit in every year since 1971. Up to March 1979, this was partially due to expenditure by the British Forces and the rent received for defence facilities. In the nine months up to December 1979, the Balance of Payments showed a credit of £M 17.8 million of which only £M 6.5 million were due to British Forces terminal expenditure¹⁰. Gross domestic fixed capital formation in the seven years 1972-79 varied between

a fifth and a quarter of G.N.P. The net foreign assets at the end of 1979 were equal to the value of about fourteen months import of goods and services¹¹. All this supports a *prima facie* finding that the Maltese economy at the end of 1979 was in a reasonably good state.

The British military base was of great importance to the economy of Malta. In the first full year following the 1972 agreement to phase out the base, it was estimated that the rent received for the defence facilities represented one-quarter of the current government revenue, that the total receipts originating from the base were rather more than one-quarter of gross foreign exchange earnings and that some five per cent of all gainfully occupied were working at the base¹². The seven years between the signing of the agreement and the evacuation of the base thus required a major restructuring of the Maltese economy.

The Development Plan for Malta envisaged that the male labour force - the number employed or in search of work - would remain unaltered between 1972 and 1979 and that the task would be to provide 11,200 new jobs for those lost at the British base and to absorb the unemployed. For the female labour force it envisaged an increase of 8,500, mainly as the result of an expected rise in the participation ratio from 26 to 33 per cent. Most of the new employment for both men and women was to be in industrial enterprises¹³. The Plan was based on the assumption that 20,500 persons would emigrate between 1973 and 1979¹⁴. However, only 15,000 emigrated and, from 1975 onwards, emigrants returning exceeded those emigrating, so that net emigration in that seven-year period was only 2,400¹⁵. This sharp decline in net emigration greatly increased the number of jobs which had to be created. Incidentally, it also increased the demand for all public services, including education, health and housing. In fact, between 1972 and September 1979, the number of men employed increased by 11,000 (no increase envisaged in the Plan) and that of women by 7,000 (1,500 fewer than envisaged). Employment in industrial enterprises had risen by 12,000 and the number of registered unemployed had declined by 2,400, equivalent to 3.3 per cent of the labour force. Amongst the 118,000 gainfully employed, some 3,000 were in a variety of job creation schemes. (For details see Appendix.)

The number of gainfully employed had thus increased by 5,500 more than had been planned, but the distribution was not quite in accordance with the Plan. The proportion of the total employed in non-market services had declined by only 4.6 per cent compared with the planned 9.3 per cent, while employment in direct production has increased by only 3.3 per cent instead of the planned 9.5 per cent.

TABLE 1: GAINFULLY EMPLOYED BY TYPE OF ECONOMIC ACTIVITY

	1972	1979	
		Projection	Actual
	%	%	%
Direct Production	41.4	50.9	44.7
Market Services	30.8	30.6	32.1
Non-Market Services	27.8	18.5	23.2
	100.0	100.0	100.0
Gainfully Employed (000)	100.4	112.9	118.4

Source: For 1972 and 1979 Projection: Outline of the Development Plan for Malta 1973-80; for 1979 Actual: Economic Report, 1979.

The leading growth sector of the Maltese economy has been tourism. The Development Plan set a target of 350,000 arrivals by 1979; this represented an increase of 200,000 on 1972¹⁶. The actual arrivals in 1979 were about 600,000, a four-fold increase compared with 1972. The gross earnings from tourism accounted for more than a fifth of foreign exchange receipts from goods and services transactions. Tourists from the United Kingdom had been 50 per cent of all tourists in 1972; by 1979 this proportion had increased to about 70 per cent¹⁷. The Plan's aim of 'diversifying the countries of origin of the tourist' was not achieved.

The targets and projection of the Development Plan for Malta, 1973-80 relating to economic growth have suffered much the same fate as plans of this kind all over the world. Some major assumptions have turned out to have been erroneous; some objectives have been achieved while others have been missed. However, there can be no doubt that the Development Plan's principal aim 'that work in industries, tourism, fisheries and agriculture will grow in such a manner that there will be no ill after-effects in 1979 when we have severed our ties with the British Services and the revenue accruing therefrom' has been achieved.

Social objectives

Following this discussion of the political and economic

environment, it is now possible to examine the extent to which the social objectives of the Development Plan have been achieved. These were :

'... the creation of a welfare state based on a sustained improvement in living standards and in the well being of the people with due consideration for those sections of the community who would otherwise not secure their fair and rightful share of economic progress.'¹⁸

This examination will be conducted in two parts: first, measures affecting people at work; second, provisions for those not in gainful employment.

Measures affecting people at work

The Labour Party's Electoral Programme of 1971 (paragraph 11 (g)) states that:

* A Labour Government would do its utmost to introduce for the first time a system of children's allowances".¹⁹

These were, indeed, introduced in November 1974 for each child under 16 years of age up to a maximum of three children in a family. The legislation contains three provisions not common in other countries. The allowance is payable to the head of the family; allowances are only payable for first, second and third children (no allowance is payable for the fourth child in the family, even when the first is above the age of 16 and thus no longer gives entitlement to an allowance); and, third, allowances are only paid to insured persons²⁰. When the allowance was first paid it was at the rate of £M 1.00 per week for three children; by 1980 this had increased to £M 5.80²¹. The allowance is related to the rank of the child: first eligible child £M 2.50, second £M 2.00 and third £M 1.30. (The allowance decreasing with the rank of the child is the reverse of the practice in most other countries) Between the end of 1974 and early 1980, the Retail Price Index increased by about 50 per cent²² so that the purchasing power of the allowance for a family with three children almost quadrupled. In 1980, the allowance for a two-child family was equivalent to 19 per cent of the gross wage of a labourer or 15 per cent of that of a fitter in public employment. This is a higher proportion than in any of the OECD countries²³. In 1977, two related allowances were introduced: an Additional Child Allowance for fourth and subsequent children under sixteen (£M0.30 per week in 1980) and a Special Allowance in respect

TABLE 2 : CHANGES IN PUBLIC SERVICE REMUNERATION

	1980 ⁽¹⁾	1972	Increase ⁽²⁾	Change in Purchasing Power
	£M	£M	£M	%
Minister	4,245	3,500	837	-27
Judge	4,110	3,346	856	-26
Permanent Secretary	3,829	3,060	861	-25
Director of Industry	3,266	2,542	816	-22
Superintendent of Police	3,094	2,134	1,052	-12
Police Constable	1,699	888	903	+19
Telephonist	1,344	574	862	+47
Grade 1 Clerk/Fitter	1,479	756	815	+22
Grade 2 Executive Officer	1,858	987	963	+16
Hospital Auxiliary	1,248	529	811	+49
Supervisory Nurse	1,858	1,103	847	+ 4
Postman	1,442	662	872	+36
Labourer/Charwoman	1,164	512	744	+44
Retail Price Index	170 ⁽³⁾	100		

- Notes
- (1) All staff received in addition an Annual Bonus of £M92
 - (2) Including £M92 Bonus
 - (3) At December 1979

Sources: For 1980 - Estimates for the Financial Year 1980.
For 1972 - Estimates for the Financial Year 1973-74.

of children over sixteen in full-time education (£M0.50),²⁰

In October 1972, a National Minimum Wage came into force. For the first two years the rate for men was higher than that for women but after 1976 the rate for both sexes was the same²⁴. The purchasing power of the National Minimum Wage increased by about half between 1974 and early 1980. For most of the time it was equal to approximately 90 per cent of the minimum wage in public employment. Prior to 1974, wage rates for unorganised workers were not subject to regulation and workers in some industries and services received wages well below the minimum rate paid by government and other good employers. The government paid to public employees regular flat-rate cost of living increases and, since 1973, an annual flat-rate bonus. In 1975, an obligation was imposed on private employers to pay their staff the same bonuses as those received by public employees and, a year later, employers were also obliged to pay the same cost-of-living increases as those paid by government. In 1980, the annual bonus was about 8 per cent of the national minimum wage and thus, for low paid workers, was almost equivalent to the thirteenth month's pay which is quite common in Europe.

The effect of the 'conscious and sustained effort on the part of the Socialist Government to narrow the gap between the highest and the lowest wage'²⁵ is clearly seen in changes in salaries and wages in the public sector between 1972 and 1980 (Table 2).

The salaries of Ministers and Permanent Secretaries increased by about a quarter, those of Grade I clerks and fitters more than doubled, while those of charwomen, labourers and telephonists increased about two-and-a-half times. This resulted in a decrease in the purchasing power of the salaries of Ministers, Judges and top civil servants by about a quarter and an increase in that of charwomen, labourers, hospital auxiliaries and telephonists by more than two-fifths. In this sector of employment, the redistribution was marked and beyond dispute. In both 1972 and 1980, Grade I clerks and fitters received the same rate of pay; this is referred to in government publications as the 'middle income'²⁵. If this wage is taken as 100, the pay of a Minister in 1972 was 463 and that of a labourer was 68. On the same basis in 1980, the pay of a Minister was 276 and that of a labourer was 80.

As part of its policy to redistribute income, the Socialist Government increased taxes on personal income. In 1980 the tax-free allowance was £M605 for a single person and £M905 for a married couple. For the first £M400 income per year, the tax was £M27; thereafter the rates were :-

	£M	%
Next	300	22.5
Next	2,140	32.5
Next	500	40.0
Next	500	45.0
Next	700	52.5
Over	4,540	65.5

The consequence of these high tax rates was that, while in the year in which it came into office, taxes on income accounted for less than a third of taxes on goods and services, in 1980 the two came to almost the same sum. This led, and was intended to lead, to a further narrowing of income differentials. Since 1979, this also has been accentuated by charging National Insurance contributions according to income. The effect of both these policies is shown in Table 3.

TABLE 3 : INCOME AND DEDUCTIONS IN 1980

		Minister	Superintendent of Police	Clerk/ Fitter	Labourer
Gross Income	£M	4,337 (276)	3,186 (203)	1,571 (100)	1,256 (80)
National Insurance	£M	178 (136)	178 (136)	131 (100)	112 (85)
Income Tax	£M	1,027 (1,180)	608 (699)	87 (100)	21 (24)
Net Income	£M	3,132 (231)	2,400 (178)	1,353 (100)	1,123 (83)

Note: The figures in brackets are index figures related to Clerk/Fitter = 100

Sources: Gross Income from Table 2 (including £M92 Bonus).

Rates of Income Tax as shown above.

In the public service, the net income of the highest paid is substantially less than three times that of the lowest paid. Income Tax is payable even at the lowest income but is steeply progressive. At the Ministerial level it is almost a quarter of gross income while for the clerk it is some 6 per cent and for the labourer less than 2 per cent. For fitters and labourers (and this is the case for the great majority of all employees) the National Insurance Contributions greatly exceed income tax liability.

For the purpose of estimating receipts from National Insurance contributions in 1980, the distribution of income of employees and of the self-employed was assumed to be as shown in Table 4.

TABLE 4 : INCOME DISTRIBUTION OF EMPLOYEES AND SELF-EMPLOYED 1980

Basic Wages £M per year	Employees Employees No. Aged 18-65	Net Income £M per year	Self-Employed Self-Employed Persons No. Aged 14-65
up to 1431	58,000	up to 1431	12,000
1432 - 1831	27,000	1432 - 1961	2,500
1832 - 2231	8,350	1962 - 2491	800
2232 - 2631	3,700	2492 - 3021	600
2632 plus	800	3022 plus	500
	97,850		16,400

Note: excluding overtime, commissions, remuneration in kind or any form of bonus.

Source: Personal communication (unpublished).

The median wage on these assumptions was about £M26 to £M27 per week and thus not much in excess of the minimum wage of £M22.80. Less than 1 per cent were estimated to earn more than £M50 and only 13 per cent more than £M35 per week. These basic earnings refer to men and women and to people in full-time and part-time employment. If all employees were entitled to the minimum wage for full-time work, this distribution of income would very approximately give 28 per cent of all basic-wage income to the fifth of all workers who have the highest wages and 16 per cent to the fifth who have the lowest wages. However, these rough calculations do not necessarily give an accurate reflection of basic wages. Even less do they reflect the distribution of gross wages, including overtime, commission and bonuses. Furthermore, it is generally believed that a substantial number of employees have a second source of income. Concerning this grey area there are, of course, no data available. Finally, while there was a marked narrowing of income differentials between employees, the proportion of 'Income from Employment' to Gross Domestic Product at factor cost declined. In 1972 it was 56 per cent and in 1980 about 52 per cent²⁶. The government has succeeded in restraining the rise of incomes sufficiently to keep the prices of exports, both goods and services, competitive. This was a considerable achievement and, indeed, without this restraint the restructuring of the economy, and particularly the increase in export of manufactured goods and in tourism, would not have been possible. The Socialist Government claimed that without redistribution of income wage restraint would not have been possible. Whether this claim is justified requires further

investigation of social and economic conditions in Malta, but it is relevant to note that, in Ireland, Britain and other European countries, narrowing of income differentials has been a cause of considerable industrial unrest.

Provisions for those not in gainful employment

The level of provisions for those not in employment was modified quite substantially during the period under review. The British Beveridge type system of National Insurance set up in 1956 was in the following fifteen years modified only in two major respects. In 1965 it was extended to cover compulsorily the self-employed as well as the non-employed. In this respect, too, it followed provisions of the British National Insurance Act 1946. The other change was a reduction of the minimum pensionable age for men from 65 to 63 in 1963 and further reductions to 62 in 1970 and 61 in 1971. In 1971, within a few weeks of taking office, the Labour Government not only increased rates of contribution and short-term benefits for women were raised to equal those of men; entitlement to pensions at age 61 became subject to the conditions that they retired from paid employment. Women at 60 and men at 65 remained entitled to pensions without having to retire. At the same time, the old age pension was renamed retirement pension. In 1974, as has already been mentioned, children's allowances were introduced. In Malta, in contrast with other European countries, these are part of the national insurance system. They are financed in the same way as other National Insurance benefits and paid only to insured persons; the award however is not subject to any contribution conditions. The Labour Government also showed its willingness to tighten the conditions on which insurance benefits were awarded. In 1956, sickness benefit, as in Britain, could be claimed only after three waiting days. In 1963, these waiting days were dispensed with but, in 1977, to check abuses in claims, they were reintroduced.²⁷

Legislation in each of the years 1978, 1979 and 1980 modified the basis and structure of long-term benefits. As from that time, social insurance legislation in Malta was no longer influenced by that of Britain or any other country. The aim of the changes was to implement a promise contained in the Labour Party's Manifesto for the General Election 1976.

'....gradually, a Socialist Government will effect changes in pensions so that:- (b) with the betterment of the country's economy (and this can be brought about by more work and greater diligence by all) gradually we will raise the pensions so much that finally each and everyone of us will be entitled to two-thirds of his salary on retirement. Naturally no one should expect more than this from the nation.'²⁸

These changes ultimately affected widow's, invalidity and retirement pensions paid to employees as well as the self-employed, but in the first year the new benefit provision did not relate to widows' pensions or the self-employed. They affected the retired and invalids in a like manner. The new benefits were subject to the same contribution conditions as the old ones had been and nobody lost entitlement to a pension which he received in March 1978 at the rate then current (£12.10 per week for a married man).

The new benefit provisions divided retirement and invalidity pensioners into four groups: (i) those who did not receive service pensions from a previous employer; they became entitled to the new National Minimum Pension of £13.5 per week for a married man; (ii) those who received a service pension of less than £1.40 (the difference between the new National Minimum Pension and the March 1978 rate of the Retirement Pension); they also received the National Minimum Pension but for them it was abated by their small service pension; (iii) those whose service pension, plus the retirement pension at the March 1978 rate, exceeded two-thirds of the current wage of the post they occupied before retirement; they continued to receive the retirement pension at the March 1978 rate: that means, they received no increase; (iv) those whose combined service and retirement pensions at March 1978 rate exceeded the National Minimum Pension but was less than two-thirds of the current wage of the post they had occupied before retirement; they received an Increased Retirement Pension, restricted to a maximum of £13.24, to bring them up to the two-thirds level.

The essential nature of these changes, though they were not advertised as such, was to discontinue the previous practice of giving uniform increases to all pensioners. Instead, they gave the largest increases (£1.40) to those who received no service pensions; group (ii) received increases at various rates depending on the size of their small service pensions but restricted to a maximum of £1.40; group (iii) received no increase at all and group (iv) received increases at various rates subject to a maximum of £1.14. Furthermore, the two-thirds fraction relevant to the pension position of those in groups (iii) or (iv) was linked to an aggregate of thirty years in gainful employment. Any lesser period reduced the two-thirds fraction proportionally; for example, in respect of twenty years gainful employment the appropriate fraction was four-ninths. Thus, a man or woman who had been in gainful employment for 20 years and whose combined service and retirement pension at the March 1978 rate exceeded four-ninths of the current wage of the post

he or she had occupied prior to retirement was not entitled to any increase.²⁹

The significance of these changes in pension entitlement which came into force in April 1978 can be assessed by considering the number receiving pensions in March 1979. At that date, some 11,500 received the National Minimum Pension, 5,800 the Retirement Pension at the March 1978 rate, and 1,400 the Increased Retirement Pension. Thus, some 31 per cent had received no pension increase in April 1978 and an unknown proportion, but at least 7 per cent received an increase below the maximum.³⁰ The fact that two-fifths or more of all pensioners received also a service pension seems remarkably high for a country at Malta's stage of development. Another interesting feature of the 1978 provision is that with each year passing the number of recipients of Retirement Pensions will fall and that of Increased Retirement Pensions will rise. This is the natural consequence of linking the Increased Pensions to current wage rates, which are likely to keep on rising.

The second stage of pension reform began in January 1979. In contrast to the 1978 legislation, it also affected widows and the self-employed, but it applied only to people who retired after the new provisions came into force.³¹ All other pensioners continued to receive pensions on the basis of the 1978 provisions. The 1979 legislation provided on retirement for the payment of an inflation-proof pension at the level of two-thirds of the pensionable income. For employees this was defined as the average basic salary of the best three consecutive years during the ten years preceding retirement. The salary received was revalued by the addition of the statutory wage increases awarded during the period up to retirement. The two-thirds pension was abated by any service pension received and was subject to a ceiling -- a pensionable income of £M1,600 equivalent to a maximum pension of £M20.45 per week. This was well above the 1979 National Minimum Pension Rate of £M15.10 for a married man. It was also enacted that any person who would be entitled to a higher pension under the 1978 than the 1979 legislation, would receive a pension under the provisions most favourable to him.³²

In 1980, as in previous years, the National Minimum pension was set so as to equal, for a married man, 80 per cent of the National Minimum Wage. This brought it up to £M18.30 per week. The income ceiling for the two-thirds pension was raised to £M2,431 per year -- equivalent to a maximum pension of £M31.08. This meant that all those retiring with a pensionable wage or salary of £M2,431 or less -- about 95 per cent of all employees (Table 4) -- received either two-thirds of their pensionable income or the National Minimum Pension, whichever was the higher. Those who retired with a pensionable income of £M2,431 or more and who were in receipt of a service pension could receive National Insurance pension up to £M31.08 to bring them up to the two-thirds standard. The two-thirds pension is reviewed annually but not before the pensioner's 63rd birthday. This review ensures that the pension continues to be linked with the current

salary of the highest post a person occupied during the three years on which his original pension was awarded.³³

The 1979 legislation introduced four new provisions in respect of widow's pensions. First, widows whose husbands, at the time of their death, had received a two-thirds pension were to be granted survivor's pensions equivalent to four-ninths of the deceased husband's pensionable income. This pension for widows who also received a service pension from their deceased husband's employer was abated so that the combined pensions did not exceed two-thirds of the deceased husband's pensionable income. Second, widows' pensions were granted, subject to statutory conditions, to all widows under 60 and not, as previously, only to widows who satisfied requirements in respect of care of children, ill health and age. Third, the pension of widows whose husbands died after January, 1979 became subject to an earnings rule. Thus a widow who earned £M30 or more in any four-week period lost her entitlement to a widow's pension. Fourth, a Widow's Supplementary Pension for women under 60 who are entitled to a Widow's pension was introduced. This was granted to women who received no other pension and, at an abated rate, to women whose other pension was less than the Supplementary Pension. The rate of this pension -- £M7.63 in 1980 -- was fixed so that all widows received a minimum income equivalent to the pension paid by Government as an employer to the widows of its deceased employees.

The last major change brought about in 1979 was the replacement of a single flat-rate national insurance contribution by five flat-rate contributions, according to different salary bands. These, for 1980, are the same as those shown in Table 4 and vary from £M2.15 to £M3.21 per week. For a man or woman at the minimum wage, the national insurance contribution equalled 9.4 per cent of his gross wage, for those earning one and a half times the minimum it was 7.3 per cent and for those on twice the minimum 6.8 per cent. The rates thus continued to be regressive but much less so than previously. In 1978, the last year in which a single flat-rate contribution was charged, the corresponding rates had been 8.5, 5.7 and 4.3 per cent. During the two-year period, contribution as a proportion of salaries had increased at all levels of income, but had increased proportionally least for the lowest paid.

In assessing the significance of the changes brought about between 1978 and 1980, a number of considerations must be taken into account. The 'Two-thirds Pension' does not necessarily provide a corresponding standard of living on retirement. There are at least two reasons why, for many pensioners, the actual fraction is lower. First, contrary to the practice of most countries, earnings-related retirement, invalidity and widows' pensions are linked to basic pay and not to total earnings; that means they do not relate to income derived from bonuses,

overtime, commissions and similar payments. Second, it is widely thought, though there is of course no documentary evidence to support this view, that many employees at all income levels have a second source of income. This normally will not give an entitlement to a retirement pension. These factors are partly or wholly offset by two which work in the opposite direction. Recipients of the National Minimum Pension pay neither income tax -- the pension rates are less than the tax-free allowance -- nor national insurance contributions. The ratio of the pension to previous basic pay less deductions is thus greater than that to previous gross basic pay. Furthermore, pensioners under 65 years of age may earn up to £M30 per four weeks, equivalent to about 40 per cent of the National Minimum Pension of a married man, without the level of their pensions being affected; for older pensioners there are no earnings restrictions of any kind.

The Maltese national insurance system, like that of Britain but contrary to that of most Continental countries, covers all employees including public servants. The latter are therefore, on retirement, entitled to both a public service and a retirement pension. The increase in retirement pensions in absolute and relative terms would have benefited a substantial proportion of pensioners who were already well provided for if there had been no abatement in respect of service pensions. This is an important issue in the Maltese context, as about 27 per cent of all employees are directly employed by the government,³⁴ and another substantial proportion are employed by 'parastatal' bodies which have similar pension arrangements for their staff. It also happens that, on average, the basic pay of public servants is higher than that of those employed in the private sector.³⁵ This is not necessarily due only to rates of pay being higher but also to a different mix of occupations and to differences in the regularity of employment.

The best possible estimates suggest that, amongst the 28,000 retirement, widows and invalidity pensioners, some 8-9,000 receive a service pension and that, of these, very approximately 3,000 originate from service with the British Forces or work in Britain and some 600 are in respect of previous employment in the private sector.³⁶ One of the major aims of the 1978-80 legislation was to claw back the amounts by which the combined service and retirement pensions exceeded two-thirds of the current wage of the post last occupied by the pensioner. This redistributed income in two ways: from those with two pensions to those with only one pension and, on average, from those who have had relatively high earnings to those who have had lesser earnings.

When the Socialist Government took office, the publication of detailed reports by each government department was discontinued. In recent years the data published about the operations of the national insurance system have been minimal and the few that are

published have appeared in different publications. This may be due partly to lack of modern data-processing equipment and partly to the desire to curtail expenditure on research, statistics and publication. In a small developing country these may be unavoidable limitations. There may, however, also be a desire to discourage discussion of some of the policy issues involved.

Whatever the reasons, the lack of data makes it difficult to assess in any detail the redistributive effect of the changes in national insurance which took place between 1978 - 1980. On balance, as has already been mentioned, they favoured those with the least income. Some groups such as widows under 60, who had no earned income have done exceptionally well, while other widows whose husbands died after January 1979 and who had an earned income, for example as school teachers, lost the entitlement to a pension which they would have received if their husbands had died in 1978 or earlier.

In terms of expenditure, sickness, unemployment, industrial injury and other short-term benefits are relatively unimportant. In the nine months to December 1979 they accounted for about 7 per cent of the total expenditure of national insurance benefits excluding Childrens Allowances.³⁷ In any case, expenditure on unemployment benefit is nowadays less meaningful than in the past in Malta, where there is quite considerable expenditure on job creation - there are four different labour corps - and on subsidising industries to prevent unemployment. As for those who received pensions or assistance because they lacked adequate financial resources rather than national insurance pensions 'as of right', it can be noted that non-contributory pensions subject to a means test were paid to old people over the age of 60, blind people over the age of fourteen, and handicapped people over the age of sixteen. Retirement, invalidity or widows' pensioners who for any reason received pensions at reduced rate were entitled to part pension under the non-contributory scheme. The non-contributory pension rate in 1980 was the same as the National Minimum Pension. The rate for a married man who had a dependent wife was 57 per cent higher than that for a single person. The number of non-contributory pensioners at the end of 1979 was about 8,500, of whom three-quarters were female, one quarter were 80 years or older, and rather more than a tenth were handicapped and below 60 years. (No analysis by age and sex is published for national insurance pensioners.) A further 4,000 heads of families received Social Assistance subject to a means test for a variety of categorised reasons. The rate of assistance for a household of five was slightly above the National Minimum Pension.

TABLE 5: CHANGES IN WAGE, BENEFITS AND TRANSFER PAYMENTS, 1972/3 to 1980

	1972/3	1980	Increase between 1972/3 - 1980	
			In £M	In purchasing power ⁽²⁾
	£M per week	£M per week	%	%
Labourer's Wage	9.85	24.15	145	44
Fitter's or Clerk's wage	14.54	30.21	108	22
Retirement Pension ⁽¹⁾	5.00	18.30	266	115
Sickness Benefit ⁽¹⁾	5.00	16.98	240	100
Non Contributory OAP	4.67	18.30	284	126
	£M mill	£M mill		
<u>Expenditure on :-</u>				
Retirement Pensions	3.1	14.2	358	169
Other N.I. Pensions and Benefits	1.6	9.2	475	238
Non Contributory OAP	1.3	4.3	230	94
National Assistance	8	2.8	250	105
	6.8	30.5	348	163
Public Service Pensions	2.3	6.6	187	68

Notes: (1) for Married Couple

(2) The Retail Price Index increased by approximately 70%

Sources: Estimates for the Financial Years 1973/74 and 1980;
Annual Abstract of Statistics 1978; Department of Social
Services, Leaflet NI 7, January 1980 and NI 8, November 1972.

In Table 5 an attempt is made to give a summary of changes in rates of wages and benefits and of various forms of transfer payments between 1972/3 and 1980. The Table shows that:

- (i) Labourer's basic pay had increased by more than that of skilled workers and clerks.
- (ii) The National Minimum Retirement pension was the same as the non-contributory pension but the latter had increased by more than the former.
- (iii) Retirement pensions in 1972 were paid at the same rate as sickness benefit but in 1980 sickness benefit was some 7 per cent lower.
- (iv) Retirement pensions in 1972 were equal to 50 per cent of the labourer's basic wage- by 1980 this proportion had increased to three-quarters.
- (v) The purchasing power of pensions had increased so that after allowing for price increases a pensioner received about £2.20 in 1980 for every £1.00 he had received in 1972.
- (vi) Expenditure on all social benefit payments after allowing for price changes increased more than two and a half fold.
- (vii) Expenditure on public service pensions after allowing for price changes increased by about two thirds; it equalled a third of social benefit expenditure in 1972 but was just in excess of one fifth in 1980.

The expenditure on social benefits in the two years covered different numbers of beneficiaries. Leaving short-term beneficiaries out of account, the number of pensioners increased by about 28 per cent.

Conclusions

The purpose of this paper has been to examine the extent to which the Maltese Socialist Government has achieved the social policy objectives in respect of income redistribution which it set itself on taking office. The expansion of tourism, increased employment in manufacturing, mainly for export, substantial capital investment and an incomes policy which kept prices competitive on the world market had made it possible to achieve economic viability. The Government was however aware that:-

"the smallness of the country, the complete absence of natural resources and the extremely high dependence on foreign supplies and markets make the Maltese economy highly vulnerable and render it completely exposed to adverse external economic circumstances."³⁸

The income redistribution amongst people at work - between occupations, between families with and without children, and between men and women, has been quite considerable during this brief period of eight years. In 1980, wage and income differentials in Malta are presumably as low as anywhere in the world. There has also been a significant shift in resources to those not at work and amongst them the least well provided for have benefited most.

To evaluate the extent of income redistribution, it is not sufficient merely to examine the available data but an attempt must also be made to assess the validity of these data. This is not quite as difficult as it may appear. The major question is: does the fact that, with very few exceptions, all data and information contained in the paper are derived from official Malta government publications affect the validity of the findings? In the highly charged political atmosphere of Malta, opponents of the government suspect that some official data are not so much a record of what happened as of what the government wanted to happen and what therefore ought to have happened. This is all the more the case for national income and balance of trade statistics which are based on estimates which, not only in Malta but also in many, if not most, other countries, tend occasionally to be based on guesstimates. There is also the possibility that while the data are correct their simplistic and unsophisticated interpretation may result in misleading findings.

The findings of this paper are based on four types of sources. First, there are publications which are widely disseminated and which interest, affect and are known to thousands of people. This category includes the scales of National Insurance pensions and benefits, Children's Allowances and Minimum Wages as well as the rates of Income Tax and of National Insurance contributions. It also includes the salary scales of public servants which are contained in the Estimates published by the Ministry of Finance. There can be no doubt whatsoever that these data are correct; they can not possibly be 'false records'. The audited National Insurance and Inland Revenue accounts do not quite fall into this category but there can be little doubt that they too are accurate, an assessment strongly supported by their internal consistency.

The Retail Price Index lends itself more to 'dressing up' and there are good and obvious reasons why a government may wish to publish an Index which has been doctored. The Retail Price Index in Malta increased considerably less than that of most other European countries. This may possibly be partly due to skilful compilation rather than to a low rate of price increases. Even if it is assumed that this was the case, it

makes no significant difference to the major findings of this paper. It would not affect the narrowing of income differentials between occupations or between occupations and pensions. If the actual rise in prices had been markedly greater than that shown by the Index, it would have affected changes in the purchasing power of wages, salaries and pensions. It would also have made the restraint in wage increases all the more remarkable.

A third category of sources which include most macro-economic data such as national income, trade and balance of trade statistics, can also be given a 'face lift'. If this had been the case it would not affect the findings on income distribution but might modify the findings on 'economic viability'. In any case, for two good reasons, it is most unlikely that this occurred: first, it is not at all obvious who would have been the beneficiaries of such ingenuity and, secondly, to compile such 'false data' over any period of time is exceedingly difficult.

A fourth category are data which in their nature are subject to major errors. These include population, labour force and migration statistics. As about a million and a quarter people arrive and leave Malta annually, and as the last Census of Population was taken in 1967, some errors in these data are likely and unavoidable. Labour statistics will also contain minor errors- some of these may be due to purposeful changes in definition. Changes in presentation and definitions in such areas as government income and expenditure, capital investment and unemployment, make it possible to conceal changes.

Reviewing the sources of the data even in a cynical and pessimistic frame of mind does not reveal any probability of errors which are of sufficient magnitude to invalidate the findings. There remains the possibility that the data are correct but that they have been interpreted too simplistically. The salaries of public servants quoted in Table 2 are an example of such a possibility. It is not claimed that the comparisons made in the Table and the text are absolutely accurate for every occupation. While every endeavour has been made to select occupations which are strictly comparable in the two periods, there are still various possibilities which may result in errors. Examples are the re-organisation of work and a consequent regrading of staff, lengthening or shortening of salary scales, changes in the designation of particular occupations or differences in qualification required to occupy a particular post. The number and magnitude of such errors is, however, most unlikely to affect the findings in respect of salary differentials. The figures in Table 2 may also be misleading for reasons which cannot be deduced by a comparison of salary scales. There may have been changes in various fringe benefits, particularly for senior staff, and there is also the possibility that some Ministers and

top civil servants hold remunerated posts in parastatal bodies of similar agencies. If this had been the case to any marked extent, it would invalidate some findings but not the general evidence of a narrowing of differentials which is based on the salaries of dozens of occupations (not all of which are shown in the Table), most of which could not possibly benefit from pluralism.

There is yet another allegation which can be levied against the Government - the concealment of data. This seems to have more substance than the publication of false data. The Government would counter this accusation by suggesting that, in a small country, the number of people interested and competent to examine masses of data would not justify the cost of producing and publishing them. This is a perfectly legitimate view. All the same, the decision, made soon after taking office, to publish the annual reports of the working of Government Departments in severely truncated form in one volume, rather than, as previously, each Department publishing its own comprehensive report, has reduced the possibility of criticising the Government's policies. The annual Economic Survey contains different information each year and thus offers greater scope to emphasise achievement and to gloss over failures.

To sum up: the validity of the major findings of this paper seems well established but if more data had been available it would have been possible to evaluate the impact of the policies pursued in greater detail. With such data, those who benefited and those who lost by redistribution and the extent to which they did so could have been identified more clearly. This said, it emerges that, in the field of income distribution the Socialist Government had by early 1980, achieved the objectives it set itself in 1971. It almost certainly achieved them to an extent which neither its supporters nor its opponents would have thought possible when it took office.

Notes

1. Malta has a population of about 300,000 living at a density of 1,000 per square kilometre. Its fertility rate is 69 per 1,000; the infant mortality rate is 14 per 1,000 births; the average expectation of life at birth is 69 years for men and 74 years for women. Malta's national income per head in 1977 was U.S.\$ 1,800. There are about 20 cars and the same number of T.V. receivers for every 100 population. Malta became an independent state in 1964.
2. For pre-1971 pension policy see ROTE, A.W. 'State Provision for Old Age in Malta', Economic and Social Studies, Vol. 1, 1971: Malta University Press.
3. For a fairly extensive bibliography see VASSALLO, Mario From Lordship to Stewardship - Religion and Social Change in Malta, 1979, The Hague: Mouton Publishers.
4. The results of Elections and Referenda between 1921-1976 are recorded in detail in Chapter V of the Annual Abstract of Statistics, 1978, No. 32 Department of Information, Valletta.
5. See AUSTIN, Dennis, Malta and the End of Empire, 1971 London: Frank Cass.
6. The Christian Workers Party was founded by prominent members of the Malta Labour Party in 1961.
7. International Labour Office Yearbook of Labour Statistics 1979, Table 23, 542-543.
8. Quarterly Digest of Statistics, September 1979, Table 53, Central Office of Statistics, Department of Information, Valletta.
9. Estimates for the Financial Year 1980, Ministry of Finance, Valletta.
10. Economic Report 1979, Economic Division, Office of the Prime Minister, Valletta.
11. Supra
12. Development Plan for Malta - Supplement, Office of the Prime Minister, Valletta, 1973.
13. Outline of the Development Plan for Malta 1973-80, 28-29, Office of the Prime Minister, Valletta, 1973.
14. Supra, p. 28
15. Quarterly Digest of Statistics, September 1979, Table 9.
16. Outline of the Development Plan for Malta 1973-80, 33.

17. Economic Report 1979, 8,20
18. Development Plan for Malta - Supplement, 1977, 45.
19. Labour Government Electoral Programme, 11, Malta 1971.
20. Department of Social Services, Leaflet N18, para. 25. Valletta, June 1980.
21. Department of Social Services, Leaflet N17, 6, Valletta, January 1980.
22. Data up to September 1979 in Quarterly Digest of Statistics, September 1979. For December 1979 communication by Central Office of Statistics. Indexes linked by author.
23. International Social Security Review XXXII (1) 1979, 49.
24. Economic Survey 1975, Economic Division, Office of the Prime Minister, 1976, 50.
25. Supra, 49.
26. Estimates for the Financial Years 1973-74 and 1980.
27. See BELLIZZI, A.J. The Development of Social Insurance in Malta. An unpublished talk to the Committee on Social and Health Questions of the Council of Europe in June 1980,5.
28. Labour Manifesto Forward in Peace, 1976, Department of Information, Valletta, 46.
29. The preceding paragraphs are based on Mr. Bellizzi's talk (see Note 27) but the ordering of the information and my inferences are very different from his.
30. Report on The Workings of Government Departments 1978-79, Department of Information, Valletta, 1979, 113.
31. The provisions for the self-employed are quite complex but are outside the scope of this paper.
32. See Note 30.
33. Department of Social Services, Leaflet N18, June 1980,8
34. Estimates for the Financial Year 1980, 16
35. This cannot be documented by published data but is overwhelmingly probable.
36. Furthermore, 645 Australian social security pensions (including 53 widow's pensions) were paid in Malta in 1979. Department of Social Security Annual Report 1978-9, Australian Government Publishing Service, Canberra, 1979, 106.

37. Department of Social Services, Report for the Period April to December 1979, Table 3. (Unpublished)
38. Economic Survey 1978, Economic Division, Office of the Prime Minister, 1979, 25.

APPENDIX

EMPLOYMENT 1972-79

MALES

(All figures are in thousands)

	1972	1979 Projection	1979 Actual	Difference between 1979 Actual and:	
				1972	1979 Projection
Military Base	5.2	-	-	-5.2	-
Agriculture and Fisheries	5.6	4.9	6.5	+0.9	+1.6
Construction and Quarrying	7.2	7.0	5.4	-1.8	-1.6
Malta Government ⁽¹⁾	16.8	16.8	21.6	+4.8	+4.8
Industrial Enterprises ⁽²⁾	19.7	28.9	25.2	+5.8	-3.7
Tourism and Personal Services	6.6	7.8	9.8	+3.2	+2.0
Other Services ⁽³⁾	13.6	14.4	16.9	+3.3	+2.5
Labour Corps	1.5	-	1.8	+0.3	+1.8
Gainfully employed	76.2	79.8	87.2	+11.0	+7.4
Registered unemployed	5.2	1.6	3.4	-1.8	+1.8
Labour Force	81.4	81.4	90.6	+9.2	+9.2

Notes: (1) incl. Armed Forces and in 1979 also 1.3 thousand Auxiliary Workers.

(2) includes Dry Docks, Gas, Electricity and Manufacturing.

(3) includes Banking, insurance, real estate, wholesale and retail trades, transport and communications.

The 1972 figures refer to November, the 1979 Actual to September.

Sources: 1972 and 1979 Projection in Development Plan for Malta 1973 - 1980, Table 5.
1979, Economic Report, 1979, Office of the Prime Minister, Malta, Nov. 1979, 11.

APPENDIXEMPLOYMENT 1972-79FEMALES

(All figures are in thousands)

	1972	1979 Projection	1979 Actual	Difference between 1979 Actual and:	
				1972	1979 Projection
Military Base	0.3	-	-	-0.3	-
Agriculture & Fisheries	0.8	0.7	0.8	-	+0.1
Construction and Quarrying	-	-	0.1	+0.1	+0.1
Malta Government ⁽¹⁾	4.1	4.1	4.1	-	-
Industrial Enterprises ⁽²⁾	8.3	16.0	14.9	+6.6	-1.1
Tourism and Personal Services	6.1	7.7	6.1	-	-1.6
Other Services ⁽³⁾	4.6	4.6	5.2	+0.6	+0.6
Labour Corp.	-	-	-		
Gainfully employed	24.2	33.1	31.2	+7.0	-1.9
Registered unemployed	1.0	0.7	0.4	-0.6	-0.3
Labour Force	25.2	33.8	31.6	+6.4	-2.2

For Notes and Sources see previous page

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